



*Delmarva Power  
Integrated Resource Plan  
("IRP") and Request for  
Proposal ("RFP") – House Bill  
No. 6*

Meeting – August 18, 2006



# Agenda:

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- Background on Legislation
- Review of Timeline
- Draft RFP
  - Key Components
  - Evaluation Process
  - Aligning Evaluation Criteria with the Legislation
- Revisions to the August 1 Filed Draft RFP
- Summary Discussion



# Background on Legislation

In compliance with the Electric Utility Retail Customer Supply Act of 2006 (the "Act") (Delaware House Bill No. 6), Delmarva Power is required to file and Integrated Resource Plan ("IRP") with the Commission on December 1, 2006. The IRP is to present an evaluation of all available supply options that could be relied upon to meet the customers' load requirement. The evaluation will consist of an economic assessment of the supply options, which may include DSM programs, long- and short-term purchase power contracts, self generation, and wholesale spot market purchases.

As part of the IRP process, Delmarva Power is required to file on or before **August 1, 2006** a Request for Proposal ("RFP") to obtain a long-term contract(s) from a new generation resource in Delaware. The RFP must include the selection criteria for bid evaluations and a draft output contract. The Commission and Energy Office may approve or modify the RFP before it is issued and the Act requires its issuance no later than November 1, 2006. The Act then requires RFP responses returned to the company no later than December 22, 2006.



# IRP's Legislative Requirements

- Evaluate all supply options during a 10 year planning period
- Set forth Delmarva Power's supply and demand forecast for the next 10 years
- Set forth the resource mix to meet the supply obligations (i.e., DSM, long-term and short-term power contracts\*, procurement through the RFP, rate base generation, spot market purchases)
- The costs that Delmarva Power incurs in developing and submitting its IRP shall be included and recovered in distribution rates
- On December 1, 2006 and biennially thereafter, Delmarva Power must file IRP with:
  - Commission
  - Controller General
  - Director of the Office of Management and Budget
  - Energy Office

*\* Per House Bill No. 6, at least 30% of the resource mix to service the SOS obligation is required to be purchased through the regional wholesale market via a bid procurement or auction process.*



# RFP's Legislative Requirements

- Generation must be “New” and constructed within the state of Delaware
- Output contract to have a term between 10-25 years for capacity, energy, and may include ancillary electric products
- Output contract to service DE customers taking Standard Offer Service (“SOS”)
- RFP to include selection criteria based on “the cost-effectiveness of the project in producing energy price stability, reductions in environmental impact, benefits of adopting new and emerging technology, siting feasibility and terms and conditions concerning the sale of energy output from such facilities”
- RFP to elicit and recognize the value of proposals that (a) utilize new or innovative baseload technologies, (b) provide long-term environmental benefits to the state, (c) have existing fuel and transmission infrastructure, (d) promote fuel diversity, (e) support or improve reliability, (f) utilize existing brownfield or industrial sites



## Timeline - Critical Milestone Dates in the Legislation

- **August 1<sup>st</sup>** – File draft RFP
- **November 1<sup>st</sup>** – RFP to have been issued
- **December 1<sup>st</sup>** – File IRP
- **December 22<sup>nd</sup>** – RFP proposals due
- **February 28<sup>th</sup>** – Commission and agency selection decision on RFP proposal(s)



# Draft RFP's Key Structuring Components

<u>Issue</u>	<u>Key Component</u>	<u>Rationale</u>
Definition of “New” generation	The “New” generation must result in an increase in the “net” generating capacity within the state.	Increase the “net” generating capacity within the state to enhance reliability and mitigate congestion exposure. In compliance with the legislation.
In-service date for “New” generation	On or before June 1, 2013 excluding any “New” generation in-service prior to the execution date of a contract with “winning” bidder(s).	Timeframe supports the construction of a coal based facility. Nearer term in-service dates are viewed more favorably in the evaluation process.
MW Size	Total request: 200 MWs Not less than 50 MW for non-renewable projects and not less than 25 MW for renewable projects.	200 MW maximum based on a desire not to depend heavily on a single source for SOS supply (average hourly load is approximately 400 MW for Delmarva’s residential and small commercial customers). Approximately 2% of the hourly load is less than 200 MWs. The size supports compliance with the legislation requiring 30% of SOS supply to be sourced from wholesale market through a bid/auction process.  The minimum level of 50 MW reflects a size which can influence, meaningfully, the cost and price stability of SOS supply and is a standard size market contract.



# Draft RFP's Key Structuring Components

<u>Issue</u>	<u>Key Component</u>	<u>Rationale</u>
Mitigating bidder default risk	<p>Bidders must have an investment grade debt rating (or equivalent) to participate.</p> <p>The RFP evaluation will assess the likelihood of a bidder's default under stressed market conditions and include the cost assessment in the bidder's economic evaluation.</p> <p><b>Development Collateral:</b></p> <p>Delmarva Power will require collateral to assure that the "New" generation is placed in-service.</p> <p><b>PPA Performance Collateral :</b></p> <p>Bidders would not accept margining rights for the full in-the-money value of a 10-25 year energy deal. In addition, there is no liquid market available to provide an ongoing current value. As of the power purchase agreement's in-service date, Delmarva Power will margin the rolling nearest two years of the deal and seek DE Commission approval to pass through the cost of a replacement contract in the event of a bidder's default.</p> <p>Delmarva Power to have a lien on the "New" generation facility to enhance its credit protection.</p>	<p>Properly values the exposure in the bid evaluation and helps to mitigate the counterparty risk associated with a 10-25 year contract.</p> <p>Mitigates the counterparty risk associated with the development of the "New" generation.</p> <p>Mitigates the counterparty risk associated with performance under the power purchase agreement.</p>





# RFP's Key Structuring Components

<u>Issue</u>	<u>Key Component</u>	<u>Rationale</u>
RFP Evaluation Structure	<p><b>Threshold requirements:</b> Credit, Accounting, Siting, Environmental, Engineering, Contract, and Security</p> <p><b>Price Factors (economically assessed)</b> Capacity and Energy Price, Residual SOS Cost Impact, T&amp;D Project Impact, Transmission Losses, Imputed Debt Offset, Loss under Probability of Default</p> <p><b>Non-Price Factors (qualitatively assessed)</b> Environmental Compatibility, Operation Date and its Certainty, Reliability of Technology, Fuel Diversity, Site Development, Bidder Experience, Safety and Staffing, Financial Plan, Contract Terms</p>	<p>Process clearly defined in RFP to reduce concerns of “self dealing” and facilitates a more timely turn around of the evaluation to meet the February 28, 2007 decision date.</p> <p>Criteria intended to place value on the deal's economics and allows for additional weight be given other factors outlined in the legislation.</p>



# The Bid Evaluation Process

- Bidders, subsequent to being screened through all the Threshold Requirements will be assessed based on a combination of “Price and “Non-Price” Factors resulting in a ranking of the bids.
- Evaluation to be based on a 100 point scale (60 points for “Price” and 40 points for “Non-Price”).
- The 60 “Price” points have been split between a cost component (40 points) and a stability component (20 points). The bid having the lowest cost will receive 40 points and the bid with the most stable cost will receive 20 points. All other bids will be scaled to that/those proposal(s) based on relative cost and stability.
- Highest rated bid(s) will be selected for evaluation under Delmarva Power’s Integrated Resource Plan.

## **Threshold Requirements**

(minimum requirements that every proposal will be required to meet to be considered eligible for evaluation)

- Credit Quality
- Accounting
- Siting
- Environmental
- Engineering
- PPA Contract
- Security

## **Price Factors (60 Points)**

(factors that will be economically assessed)

- Capacity and Energy Price
- Residual SOS Cost Impact
- T&D Project Impact
- Transmission Losses
- Imputed Debt Offset
- Loss under Probability of Default

## **Non-Price Factors (40 Points)**

(factors that will be qualitatively assessed)

- Environmentally Compatibility
- Operation Date and its Certainty
- Reliability of Technology
- Site Development
- Fuel Diversity
- Bidder Experience (including safety performance)
- Financial Plan
- Contract Terms



# The Bid Evaluation Process

- DPL will take into account “Non-Price” factors to favor bids that are more aligned with the legislation and evaluates the development and operational risks of each bid proposal.
- 40 points out of 100 points are allocated to “Non-Price” factors.

## Non-Price Factors (40 Points)

(factors that will be qualitatively assessed)

## Point Allocation (40 Points)

• Environmental Compatibility	7
• Operation Date and its Certainty	4
• Reliability of Technology	5
• Site Development	5
• Fuel Diversity	7
• Bidder Experience (including safety performance)	5
• Financial Plan	5
• Contract Terms	2
Total “Non-Price” Points	40



## The RFP is Designed to Capture Key Legislative Goals

Legislative Goal	RFP Implementation	Scoring Method
New or innovative baseload technology	a) Reliability of Technology and Innovation	a) Non-price factor (5 points)
Long-term environmental benefits	a) Avoided cost of SOS service b) Environmental Compatibility c) Site Development d) Fuel Diversity	a) Included in price factor b) Non-price factor (7 points) c) Non-price factor (5 points) d) Non-price factor (7 points)
Existing fuel and transmission infrastructure	a) T&D Impact (avoided cost) b) Site Development	a) Included in price factor b) Non-price factor (5 points)
Fuel diversity	a) Fuel Diversity	a) Non-price factor (7 points)
Reliability enhancement	a) T&D Impact (avoided cost) b) Transmission losses impact	a) Included in price factor b) Included in price factor
Existing brownfield or industrial sites	a) Site Development	a) Non-price factor (5 points)
Price stability	a) SOS Avoided Cost Minimization of Variation	a) Included in price factor
Cost effectiveness	a) SOS Avoided Cost Minimization b) IRP Review	a) Included in price factor b) IRP Cross Comparison

### Evaluation Points:

Price Factors 60

Non-Price Factors 40

100



## The RFP is Designed to Capture Key Legislative Goals

Legislative Goal	RFP Implementation	Scoring Method
Safety	a) Bidder Experience, Safety, and Staffing Plan	a) Non-price factor (5 points)
Certainty of Development (Project Development Risk)	a) Bidder Experience, Safety, and Staffing Plan b) Financial Plan c) Site Development d) Credit / Security Requirements and Milestone Targets	a) Non-price factor (5 points) b) Non-price factor (5 points) c) Non-price factor (5 points) d) Threshold Requirements
Timing of Project	a) Avoided Cost to SOS b) Operation Date and its Certainty	a) Included in price factor b) Non-price factor (4 points)
Certainty of Facility and PPA Performance (Performance and Contract Risk)	a) Reliability of Technology and Innovation b) Financial Plan c) Credit / Security Requirements d) Loss under Probability of Default	a) Non-price factor (5 points) b) Non-price factor (5 points) c) Threshold Requirements d) Included in price factor
Legal Surety	a) Contract Terms	a) Threshold requirement and Non-price factor (2 points)

### Evaluation Points:

Price Factors 60

Non-Price Factors 40

100

# Revisions to the August 1 Filing



## Page #24 of the RFP:

### Current Text

#### 5. SCHEDULE

Written questions for pre-bid meeting – November 10, 2006

Filing of IRP by Delmarva – **December 2, 2007**

#### 5.1 PRE-BID CONFERENCE – November 15, 2006

Two weeks after the issuance of the RFP, on November 15, 2006, a pre-bid conference will be held near Newark, Delaware. **The specific time and location of this meeting will be announced to each prospective bidding party who submits a “Notice of Intent to Bid” form.** Delmarva reserves the right to limit the number of prospective bidders' representatives in attendance. If this is necessary, Delmarva will provide sufficient advance notice to all prospective bidders affected. At this conference, Delmarva will make an in-person presentation of this solicitation process, respond to pre-submitted questions and comments, and address questions from the floor. At this meeting, Delmarva will review an example of how they intend to score selected criteria. Pre-submitted questions must be received prior to November 10, 2006 to be discussed at the pre-bid conference.

### Revised Text

#### 5. SCHEDULE

Submission of written questions **and registration for pre-bid meeting** – November 10, 2006

Filing of IRP by Delmarva – **December 1, 2006**

#### 5.1 PRE-BID CONFERENCE – November 15, 2006

Two weeks after the issuance of the RFP, on November 15, 2006, a pre-bid conference will be held near Newark, Delaware. **Notice of this pre-bid conference will be filed with the RFP, and the specific time and location of this meeting will be provided to each prospective bidding party who registers on or before November 10, 2006.** Delmarva reserves the right to limit the number of prospective bidders' representatives in attendance. If this is necessary, Delmarva will provide sufficient advance notice to all prospective bidders affected. At this conference, Delmarva will make an in-person presentation of this solicitation process, respond to pre-submitted questions and comments, and address questions from the floor. At this meeting, Delmarva will review an example of how they intend to score selected criteria. Pre-submitted questions must be received prior to November 10, 2006 to be discussed at the pre-bid conference.



# Summary Discussion